



Commonwealth of Massachusetts
Executive Office for Administration and
Finance

LWD, A&F, and Treasury Update to the UITF Study Commission

Unemployment Insurance Trust Fund
Special Obligation Revenue Bonds
(Social Bonds)

March 25, 2022





Summary

- Bonds will be issued to repay outstanding Federal Unemployment Advances (FUA) and build solvency in the UITF
- Plan of finance (and precise size of bond issuance) will be determined by the Administration after the Q1 projections for 2022 and subsequent years are finalized (anticipated publishing on or around April 15th)



Purpose

- Repay FUA prior to the November 10, 2022, trigger date, avoiding a decrease in employer FUTA Tax Credits
- Bond issuance also provides a mechanism to establish a UITF balance that creates a buffer to avoid federal borrowing and establish rate stability for the average employer over the near-term



Cost to Employers

- All-in cost to employers is comprised of the SUTA Tax, the COVID-19 Recovery Assessment and the Net FUTA Tax
- Bonds will be structured to maintain near-term total costs (inclusive of all components) for the average employer at levels that are similar to historic averages (2011-2020)



Other Considerations

- Current UITF balance (total amounts in UITF less FUA and adjustments) is near zero; should benefit outlays exceed contributions at any point, then subsequent federal borrowings may be needed
- Remaining outstanding FUA will continue to accrue interest at the FUA Rate, which is reset annually, and failure to repay the balance by November 10, 2022, will cause employer FUTA Tax Credits to decrease

Components of the Total Employer Cost



Total Employer Cost**

Total Employer Cost = SUTA Tax + COVID-19 Recovery Assessment + Net FUTA Tax

SUTA Tax

- Prevailing schedule is driven by the UITF reserve ratio, which is calculated from the UITF balance
- Higher UITF balance results in lower rate schedule and vice versa

COVID-19 Recovery Assessment

- Set annually to generate a targeted debt service coverage amount, thus cost is dependent on level and shape of debt service

COVID-19 Recovery Assessment = Principal + Interest + Coverage

- Shape of ramp-up and future sculpting
- Final maturity

Net FUTA Tax

- Repaying Federal Advances before November 10, 2022, preserves 5.4% FUTA Tax Credits, resulting in 0.6% Net FUTA Tax

** Excludes EMAC, WTFP and the impact of any Solvency Assessment



Estimated Required UITF Balance to Achieve Each Rate Schedule

Key Takeaways

- Unless otherwise frozen by law, the SUTA Tax contribution schedule is triggered by the UITF balance as of each September 30
- DOL standard for solvency (Average High Cost Multiple, or AHCM), is achieved with a UITF balance of approximately \$4.0 billion (est.) at the time of calculation only and would change as the UITF declines
- The SUTA, which is based on its own reserve ratio formula is independent from the DOL's AHCM, triggers certain schedules as a product of the UITF balance and total payroll
- The table provides an approximate and indicative SUTA schedule that corresponds to the UITF balance based on the most recent total payroll results



Balance Requirement by Rate Schedule

Target Rate Schedule in 2023	Estimated Minimum UITF Balance Required to Achieve Target Schedule <i>(\$s in billions)</i>
1.0x AHCM	> \$4.0
A	\$3.5
B	\$3.2
C	\$2.7
D	\$1.9
E	\$1.3
F	\$0.6
G	\$---

Note: Analysis is based on a 3-year average total payroll number of \$206.8 billion (actual results for 2018-2020)

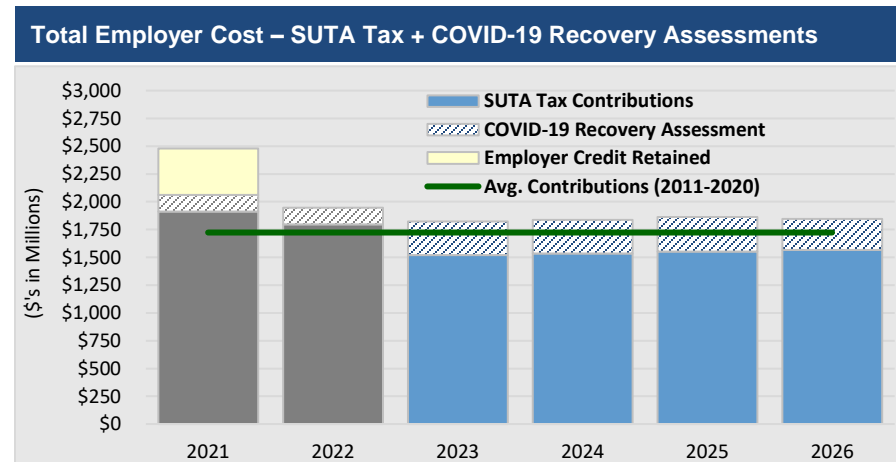
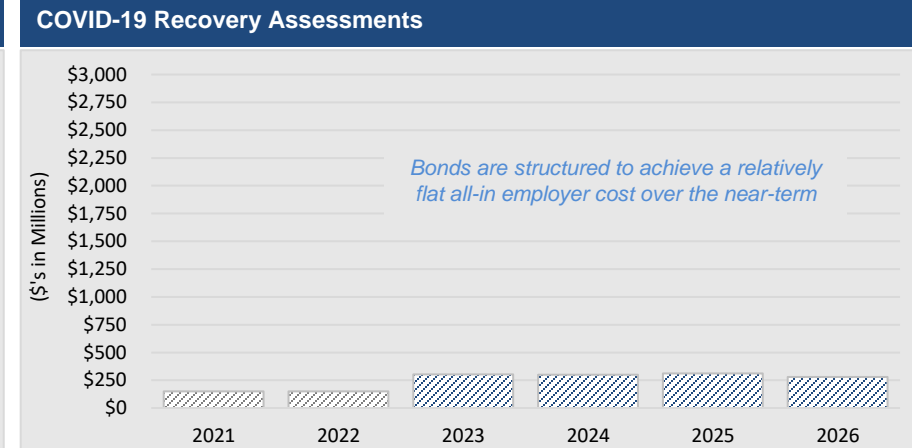
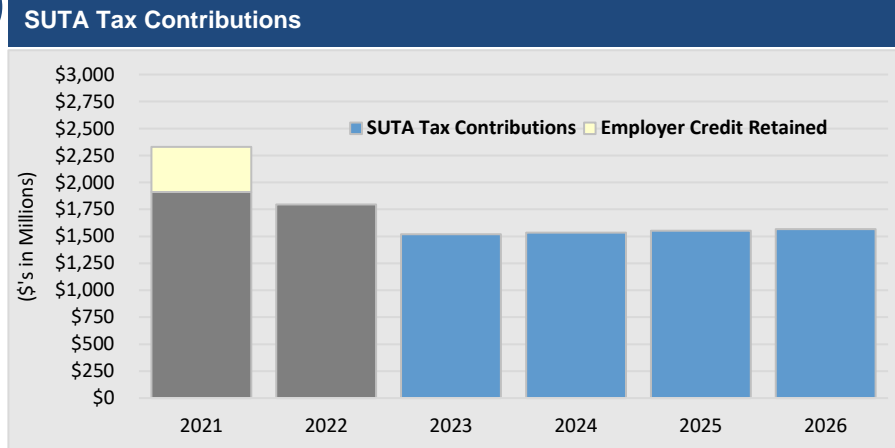
Note: Preliminary and Illustrative Analysis, Subject to Change

SUTA Tax + COVID-19 Recovery Assessments



Key Takeaways

- The graphs at right show the relationship between the SUTA Tax and COVID-19 Recovery Assessment
- SUTA Tax Contributions are reduced in 2023 compared to 2022 levels as a lower rate schedule is triggered (Schedule C in this illustrative example)
- When also considering the COVID-19 Recovery Assessment, the annual obligation for the average employer remains relatively flat to 2022 levels
- The COVID-19 Recovery Assessment may comprise a higher portion of the average employer's bill at the outset



Note: The COVID-19 Recovery Assessment represents the projected early repayment of debt, the actual stated maturity date will be longer; excludes any Solvency Assessment and required deposits for EMAC, WTPF and the Net FUTA Tax

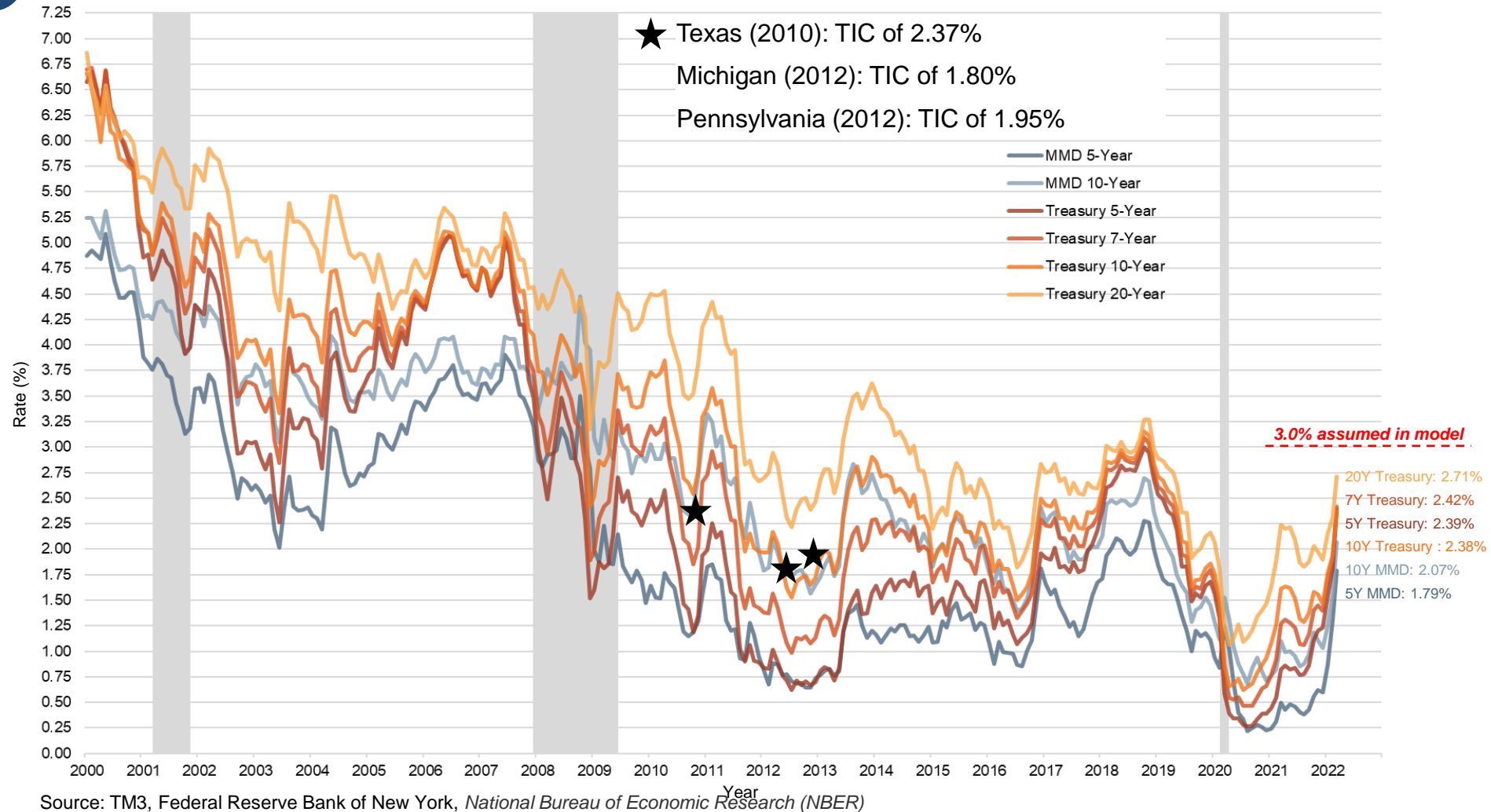
Note: Preliminary and Illustrative Analysis, Subject to Change



Historic Context: Long-Term Benchmark Interest Rates

Key Takeaways

- Benchmark rates are near 20-year low but rising
- The total effective rate on the UI bonds will reflect the average maturity date (the longer the bonds, the higher the rate)
- Current 10-year rates are a good proxy to follow for the UI bonds; as of 3/22/2022:
 - **10-y Treasury: 2.38%**
 - **10-y MMD: 2.07%**
- Demand for a unique credit offering with this structure is high, potentially creating more favorable rates
- States that previously issued UI bonds achieved comparatively strong rates to their benchmarks



Historic Context: UITF Flows



Historic UITF Receipts, Withdrawals and Balance Information (\$'s in 000's, 2006-2021)

Year	Contribution Rate Schedule	Total Receipts ¹	Total Withdrawals ²	Net Annual Flows	UITF Balance	Federal Advances			Net UITF Balance
						Amounts Borrowed	Repayments of Amounts Borrowed	Outstanding Balance	
2006	D	1,780,241	(1,342,466)	437,775	994,345	-	-	-	994,345
2007	D	1,740,487	(1,444,534)	295,953	1,290,297	-	-	-	1,290,297
2008	D	1,682,142	(1,730,683)	(48,542)	1,241,756	-	-	-	1,241,756
2009	E	1,887,481	(2,895,074)	(1,007,594)	234,162	-	-	-	234,162
2010	E	1,833,776	(2,049,715)	(215,939)	18,223	387,313	(387,313)	-	18,223
2011	E	1,957,374	(1,781,752)	175,622	193,845	718,835	(718,835)	-	193,845
2012	E	1,976,357	(1,789,549)	186,808	380,653	337,769	(337,769)	-	380,653
2013	E	1,932,948	(1,606,299)	326,649	707,302	10,911	(10,911)	-	707,302
2014	E	1,895,621	(1,653,633)	241,988	949,290	-	-	-	949,290
2015	C	1,492,729	(1,516,232)	(23,503)	925,787	-	-	-	925,787
2016	C	1,523,704	(1,474,799)	48,905	974,691	-	-	-	974,691
2017	C	1,536,988	(1,512,884)	24,104	998,796	-	-	-	998,796
2018	D	1,751,999	(1,537,888)	214,111	1,212,906	-	-	-	1,212,906
2019	E	1,907,686	(1,395,384)	512,302	1,725,208	-	-	-	1,725,208
2020	E	2,399,947	(4,091,627)	(1,691,680)	33,528	2,201,222	-	2,201,222	(2,167,693)
2021	E	3,494,224	(674,251)	2,819,974	2,853,502	66,794	-	2,268,015	585,487

Source: TreasuryDirect, reflects data as of December 31 of each year

¹ Primarily derived from SUTA Tax contributions, but also includes earnings on the balance in the UITF and other deposits into the UITF

² Primary derived from withdrawals for benefit payments, but also includes other outflows from the UITF

Progress To-Date and Next Steps



Key Takeaways

- A&F and Treasury have been developing the plan of finance and documentation for the bonds since the summer of 2021
- Significant progress has been made, and the April 15th expected publication of projections by DUA is a critical next step
- **The team is currently targeting pricing and closing the bonds in June/July 2022**

Progress To-Date

- Selected finance team:
 - **Financial Advisor:** PFM Financial Advisors LLC
 - **Senior Managing Underwriters:** Jefferies LLC, BofA Securities
 - **Bond Counsel:** Mintz Levin
 - **Underwriters' Counsel:** Locke Lord LLP
 - **Trustee:** The Bank of New York Mellon Trust Company, N.A.
- Developed financial model that has been verified by the financial advisor and both senior managers (*though certain key inputs are awaiting confirmation*)
- Diligenced historic data and key financing assumptions (*though certain key inputs are awaiting confirmation*)
- Drafting POS (offering document), Trust Agreement and Financing Agreement between Treasury and DUA
- Developing ratings strategy and credit presentation

Next Steps and Timing

- **4/15/2022:** Publish quarterly UITF Report containing 5-year projections
- Contingent upon the receipt of 5-year projections, key next steps include:
 - Finalize plan of finance
 - Present credit structure to rating agencies and formally request ratings (*≈9 weeks*)
 - Finalize POS and other bond documents
 - Publicly post POS
 - Market bonds to investors (*≈2 weeks*)
- **Late June/Early July 2022:** Targeted pricing and closing
- **9/30/2022:** Determination date of UITF balance and reserve ratio for 2023 rate schedule
- **11/10/2022:** Trigger date for repayment of Federal advances
- **12/2022:** Deliver 2023 employer rate notices, inclusive of the COVID-19 Recovery Assessment