



Second Party Opinion

EXECUTIVE SUMMARY

ISSUER

The Commonwealth of Massachusetts

OPINION ON

Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series A (Federally Taxable) (Social Bonds)

Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series B (Federally Taxable) (Social Bonds)

SOCIAL STANDARD AND CATEGORY



- Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises

TARGET POPULATION(S)

Recipients of unemployment insurance in the Commonwealth of Massachusetts

KEYWORDS

Unemployment insurance, Unemployment Insurance Trust Fund, COVID-19, financial hardship, Massachusetts, social safety net

EVALUATION DATE

June 27, 2022

SUMMARY

Kestrel Verifiers is of the opinion that the Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series A (Federally Taxable) (Social Bonds) and the Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series B (Federally Taxable) (Social Bonds) (“2022 Bonds”) conform with the four core components of the Social Bond Principles 2021 as follows:

▪ Use of Proceeds

The 2022 Bonds will finance and refinance unemployment insurance benefits for eligible recipients in the Commonwealth of Massachusetts (the “Commonwealth”) and pay costs of issuance. Repaying Federal Advances and financing a deposit to the Unemployment Insurance Trust Fund will manage the tax rates for employers and finance unemployment insurance benefits to reduce economic hardship for those who have lost their jobs. The federal-state unemployment insurance system and the Commonwealth’s Unemployment Insurance Program played a critical role in delivering economic relief to individuals and families experiencing financial hardship during the COVID-19 pandemic. Financing for unemployment benefits is an eligible social project as defined by the Social Bond Principles in the project category of *Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises*.

▪ Process for Project Evaluation and Selection

There are strict federal and state regulations and procedures in place that guide management of the Unemployment Insurance Trust Fund (“UITF”) and eligibility requirements for unemployment benefits. The Massachusetts Department of Unemployment Assistance administers the Commonwealth’s Unemployment Insurance Program and all unemployment benefit claims through the UITF. The UITF must solely be used to finance unemployment benefits. Eligibility requirements for unemployment benefits in the Commonwealth are determined through a combination of federal and state laws.

- **Management of Proceeds**

A portion of proceeds of the 2022 Bonds will be deposited directly into the UITF and used only to pay future unemployment insurance claims. The remaining proceeds of the 2022 Bonds will be used to repay the outstanding balance of the Federal Advances borrowed by the Commonwealth and will be transferred to the federal government on the date of delivery.

- **Reporting**

The Commonwealth will post annual voluntary continuing disclosures to the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access (“EMMA”) system. Unemployment insurance is tracked at the federal and state level with monthly reports on claimant data on the Commonwealth’s Department of Unemployment Assistance website (<https://lmi.dua.eol.mass.gov/LMI/>) and daily information on the UITF balance on the federal government’s website (www.treasurydirect.gov).

- **Impact and Alignment with United Nations Sustainable Development Goals**

By financing unemployment insurance, the 2022 Bonds support and advance multiple UN SDGs, including Goals 1: *No Poverty*, 8: *Decent Work and Economic Growth*, 10: *Reduced Inequalities* and 17: *Partnerships for the Goals*.



Second Party Opinion

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| Issuer: | The Commonwealth of Massachusetts |
| Issue Description: | Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series A (Federally Taxable) (Social Bonds) Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series B (Federally Taxable) (Social Bonds) |
| Project: | Unemployment Insurance Trust Fund |
| Social Standard: | Social Bond Principles |
| Social Category: | Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises |
| Target Population: | Recipients of unemployment insurance in the Commonwealth of Massachusetts |
| Keywords: | Unemployment insurance, Unemployment Insurance Trust Fund, COVID-19, financial hardship, Massachusetts, social safety net |
| Par: | \$2,680,980,000 |
| Evaluation Date: | June 27, 2022 |

SOCIAL BONDS DESIGNATION

Kestrel Verifiers, an Approved Verifier accredited by the Climate Bonds Initiative, conducted an independent external review of the Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series A (Federally Taxable) (Social Bonds) and the Special Obligation Revenue Bonds (Unemployment Insurance Trust Fund) 2022 Series B (Federally Taxable) (Social Bonds) (“2022 Bonds”) to evaluate conformance with the Social Bond Principles (June 2021) established by the International Capital Market Association.

This Second Party Opinion reflects our review of the uses of proceeds and conformance of the 2022 Bonds with the Social Bond Principles. In our opinion, the 2022 Bonds are aligned with the four core components of the Social Bond Principles and qualify for Social Bonds designation.

ABOUT THE ISSUER

The Commonwealth of Massachusetts (the “Commonwealth” or “Massachusetts”) is located in the New England region of the United States and has a population of approximately seven million. The Commonwealth’s seasonally-adjusted unemployment rate has fallen from a record 17.1% in April 2020 at the start of the COVID-19 pandemic to 4.1% in April 2022.¹

Massachusetts Department of Unemployment Assistance administers the Commonwealth’s Unemployment Insurance Program, an economic stabilization program under the federal-state unemployment insurance

¹ Reflects a preliminary estimate as of May 31, 2022.

system² designed to financially support individuals who lost their jobs by no fault of their own. It is funded through employer quarterly tax contributions. Compared to other states, the Commonwealth provides generous unemployment insurance benefits to claimants. For example, the Commonwealth offers the highest weekly benefits relative to the cost of living across all states. The 2021 employer contribution rate was 0.69% of total wages, compared to the 0.46% national average.³ By keeping rate schedules low during economic distress related to COVID-19, the Commonwealth has also provided relief to employers.

ALIGNMENT TO SOCIAL STANDARDS⁴

Use of Proceeds

The 2022 Bonds will finance and refinance unemployment insurance benefits for eligible recipients and pay costs of issuance. Proceeds will repay Federal Advances and finance a deposit to the Commonwealth's Unemployment Insurance Trust Fund to 1) manage overall employer tax rates and 2) finance unemployment benefits for individuals affected by the COVID-19 pandemic. The financing is an eligible social project as defined by the Social Bond Principles in the project category of *Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises*.

| Social Standard |
|---|
|  Eligible Project Category: <ul style="list-style-type: none">Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises |

Deposit to the Commonwealth's Unemployment Insurance Trust Fund

Massachusetts is the first state since the COVID-19 pandemic to issue bonds for the purpose of repaying Federal Advances (as defined below) and depositing funds directly into its Unemployment Insurance Trust Fund (the "UITF"). \$867.6 million of the 2022 Bond proceeds are expected to be deposited into the UITF, which is solely dedicated to financing unemployment benefits through the Massachusetts Unemployment Insurance Program. Deposit of proceeds into the UITF will effectively recapitalize and buffer the fund, while managing overall employer rate schedules.

The Federal Advances

Under Title XII of the Social Security Act,⁵ states are permitted to receive loans from the federal government if the state's unemployment insurance trust fund has been depleted, such as during an economic crisis. This ensures that claimants' unemployment benefits are not interrupted. In 2020, as a result of high unemployment rates stemming from the COVID-19 pandemic, the Commonwealth began borrowing Federal Advances. By April 2021, the Commonwealth had received more than \$2.2 billion in Federal Advances, approximately \$1.768 billion of which remains outstanding.⁶ One hundred percent of the Federal Advances have already been used to process unemployment insurance claims.

COVID-19 Economic Crisis and Unemployment Alleviation

The federal-state unemployment insurance system has played a critical role delivering economic relief to people in distress during the COVID-19 pandemic. Between the second week of March 2020 and the second week of May 2020, the number of individuals receiving unemployment benefits in the United States jumped from 1.8 million to 24.9 million, as state governments enacted stay-at-home orders and many employees

² The US federal-state unemployment insurance system, created in 1935, is a form of social insurance in which taxes collected from employers are paid into the system on behalf of working people to provide income support to individuals who lose their jobs. The system also helps sustain consumer demand during economic downturns by providing a continuing stream of dollars for families to spend. The basic unemployment insurance program is run by individual states, although the US Department of Labor oversees the entire system, and provides up to 26 weeks of benefits to unemployed workers. Although states are subject to federal requirements, they are generally able to establish eligibility criteria and benefit levels. Chad Stone and William Chen, "Introduction to Unemployment Insurance," Center on Budget and Policy Priorities, July 30, 2014, <https://www.cbpp.org/research/introduction-to-unemployment-insurance>.

³ "How your unemployment benefits are determined," Commonwealth of Massachusetts, accessed May 26, 2022, <https://www.mass.gov/info-details/how-your-unemployment-benefits-are-determined>.

⁴ Social Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or refinance eligible Social Projects which are aligned with the four core components of ICMA's Social Bond Principles.

⁵ "Compilation Of The Social Security Laws," US Social Security Administration, accessed May 27, 2022, https://www.ssa.gov/OP_Home/ssact/ssact-toc.htm.

⁶ "Title XII Advance Activities Schedule," TreasuryDirect, accessed May 27, 2022, https://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiesched.htm.

were laid off temporarily. Massachusetts had some of the highest unemployment insurance reciprocity rates compared to other states during this time.⁷ Since the height of the COVID-19 pandemic, unemployment insurance claims have been trending down: Massachusetts had only 23,157 initial claims between February 6th and March 5th, 2022, with the highest number of claims coming from the transportation, warehouse and construction industries. A majority of claimants identify as white and not Hispanic/Latino.⁸

Kestrel views the federal-state unemployment insurance system and the Commonwealth's Unemployment Insurance Program as having positive impact on social equity in the United States by 1) providing a financial safety net to those who have lost their jobs and 2) by helping stabilize the economy during economic recessions. However, Kestrel also recognizes that there are limitations to the federal-state unemployment system and understands that (i) unemployment benefits should not be the only safety net during socioeconomic crises and (ii) economic downturns disproportionately impact disadvantaged groups.⁹ Nevertheless, the federal-state unemployment insurance system and the Commonwealth's Unemployment Insurance Program effectively reduce economic hardship for those who have lost their jobs and is therefore an essential component of social insurance in American democracy.

Climate Risk and Transition Alignment¹⁰

The 2022 Bonds finance activities which align with the *just transition*, characterized by the equitable inclusion and accommodation of all individuals, with a special focus on disadvantaged groups who are affected by the structural changes necessary to transition to a low-carbon economy. Projects that support the just transition are planned in a way that incorporates understanding of physical, transition and/or societal risks. The Commonwealth's Unemployment Insurance Program is designed to equitably alleviate the financial burdens of unemployment by providing benefits to individuals who have lost their jobs at no fault of their own. The bond-financed repayment of Federal Advances, and the deposit to the UITF support equitable access to and distribution of financial support to eligible claimants. In this way, the 2022 Bonds are aligned with the just transition.

Process for Project Evaluation and Selection

There are strict federal and state regulations and procedures in place that guide management of the UITF and set eligibility requirements for unemployment benefits.

The Department of Unemployment Assistance administers the Commonwealth's Unemployment Insurance Program and all unemployment benefit claims through the UITF. The UITF must solely be used to finance unemployment benefits and there are restrictions on the amounts that can be withdrawn and processes in place to do so.¹¹ The UITF is funded primarily from employer tax contributions and, in the Commonwealth, the employer tax rate schedule determines annual UITF deposits. However, since the UITF was depleted and the Commonwealth received Federal Advances, the Commonwealth authorized special obligation bond issuances in April 2021 to replenish the fund and repay Federal Advances. If the Federal Advances are not paid back by November 10, 2022, then the Commonwealth is subject to mandatory reductions in employer federal tax credits.

⁷ Arindrajit Dube, "A Plan to Reform the Unemployment Insurance System in the United States," The Hamilton Project, April 2021, https://www.hamiltonproject.org/assets/files/A_Plan_to_Reform_the_Unemployment_Insurance.pdf.

⁸ "Massachusetts Monthly Unemployment Claimant Data for the month ending March 5, 2022," Executive Office of Labor and Workforce Development, March 13, 2022, <https://www.mass.gov/news/massachusetts-monthly-unemployment-claimant-data-for-the-month-ending-march-5-2022>.

⁹ Nick Gwyn, "Historic Unemployment Programs Provided Vital Support to Workers and the Economy During Pandemic, Offer Roadmap for Future Reform," Center on Budget and Policy Priorities, March 24, 2022, <https://www.cbpp.org/research/economy/historic-unemployment-programs-provided-vital-support-to-workers-and-the-economy>.

¹⁰ Climate change poses significant systemic risks to US financial systems and municipal issuers. These risks may broadly be divided into physical risk, transition risk and societal risk. Physical risk includes effects of climate change on physical assets, such as extreme weather events and sea level rise. Transition risk includes market and technology risks, reputational risks, policy risks and legal risks. Societal risk includes risk to stable democracies, risk to civil liberties and human rights, risk to labor supply, and risk to public health. Mitigation of transition risk requires planning for the necessary structural changes to address climate change and societal inequity with recognition of the risks associated with inaction. We refer to this as the just transition to a decarbonized economy, or the just transition.

¹¹ Regulations of US unemployment insurance are established in the United States Code, Title 26 – Internal Revenue Code, Section 3304 – Approval of State Laws, <https://www.govinfo.gov/app/details/USCODE-2011-title26/USCODE-2011-title26-subtitleC-chap23-sec3304>.

Eligibility requirements for unemployment benefits in the Commonwealth are determined through a combination of federal- and state-level laws.¹² As of May 2022, the eligibility requirements are:

- Have earned at least \$5,700 during the last four completed calendar quarters, and 30 times the weekly benefit amount an individual would be eligible to collect, and
- Be legally authorized to work in the US, and
- Be unemployed, or working significantly reduced hours, through no fault of the individual, and
- Be able and willing to begin suitable work without delay when offered.¹³

Availability of unemployment benefits is ensured because the Commonwealth's Unemployment Insurance Program is part of the federal-state unemployment insurance system. The Commonwealth's Unemployment Insurance Program is made accessible to all eligible applicants through bilingual forms and resources, and through the ability to receive unemployment insurance without internet access. Recipients of unemployment insurance are also typically required to enroll with a Career Center.

Management of Proceeds

A portion of the 2022 Bond proceeds will refinance Federal Advances borrowed by the Commonwealth between June 2020 and April 2021. Funds will be transferred to the federal government on the delivery date to repay the \$1.768 billion outstanding loan.

The remaining 2022 Bond proceeds will be deposited into the Commonwealth's Unemployment Insurance Trust Fund account. Funds will be transferred immediately following delivery. These proceeds will be available only to pay future unemployment benefits and will be restricted per the Commonwealth's Unemployment Insurance Program and Federal Unemployment Insurance Program, and subject to all relevant regulations.

Reporting

The Commonwealth will submit continuing disclosures to the Municipal Securities Rulemaking Board ("MSRB") so long as the 2022 Bonds are outstanding. The Commonwealth will also provide reports in the event of material developments. This reporting will be done annually on the Electronic Municipal Market Access ("EMMA") system operated by the MSRB.


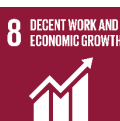


The positive impact of the 2022 Bonds on employers and employees is well-documented. As a result of the UITF deposit, all Commonwealth employers subject to employer contributions are expected to benefit from favorable rate schedule changes. Unemployment Insurance is tracked regularly at the state and federal levels. The Commonwealth prepares monthly reports on the current status of the UITF that are available on the Department of Unemployment Assistance website: <https://lmi.dua.eol.mass.gov/LMI/UnemploymentInsuranceTrustFund>. These reports include data on the Commonwealth's employer credits, UITF balance, and remaining balances of Federal Advances. Reporting on the UITF by state can also be found on the federal ledger at https://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiesched.htm. It is expected that the Commonwealth will continue this reporting indefinitely as per state and federal regulations.

IMPACT AND ALIGNMENT WITH UN SDGS

The 2022 Bonds help address UN SDGs 1, 8, 10 and 17 by financing unemployment insurance benefits for eligible recipients. The 2022 Bonds advance Targets 1.2, 1.3, 1.5 and 17.13 by financing a type of social safety net that is part of a national system, and supporting economic stabilization. Unemployment insurance is a component of labor rights in the United States and the state-federal unemployment insurance system is based on equal opportunity to benefits, so the 2022 Bonds also support Targets 8.8, 10.3 and 10.4. Full text of the Targets for Goals 1, 8, 10 and 17 is available in Appendix A, with additional information available on the United Nations website: www.un.org/sustainabledevelopment

¹² "Unemployment Insurance," US Department of Labor, accessed May 27, 2022, <https://www.benefits.gov/benefit/91>.

¹³ "Check eligibility for unemployment benefits," Commonwealth of Massachusetts Department of Unemployment Assistance, accessed May 27, 2022, <https://www.mass.gov/service-details/check-eligibility-for-unemployment-benefits>.

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|  | <p>No Poverty (Targets 1.2, 1.3, 1.5)</p> <p><u>Possible Indicators</u></p> <ul style="list-style-type: none"> Proportion of population living below the national poverty line, by gender, age and race Proportion of population covered by unemployment insurance |
|  | <p>Decent Work and Economic Growth (Target 8.8)</p> <p><u>Possible Indicators</u></p> <ul style="list-style-type: none"> Unemployment rate in the Commonwealth, by sex, gender, age and race Numbers of new jobs created |
|  | <p>Reduced Inequalities (Targets 10.3, 10.4)</p> <p><u>Possible Indicators</u></p> <ul style="list-style-type: none"> Bilingual information about the Programs is available and accessible Diversity of recipients |
|  | <p>Partnerships for the Goals (Target 17.13)</p> <p><u>Possible Indicators</u></p> <ul style="list-style-type: none"> Annual employer contributions to the UITF Amount of Federal Advances that are repaid |

CONCLUSION

Based on our independent external review, the 2022 Bonds conform, in all material respects, with the Social Bond Principles (2021) and are in complete alignment with one eligible project category: *Programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises*. The 2022 Bonds will manage overall employer contribution rates and finance unemployment insurance through the Commonwealth’s Unemployment Insurance Program to reduce economic hardship for those who have lost their jobs. The financing plays a critical role in delivering economic relief to individuals and families experiencing financial hardship during the COVID-19 pandemic.

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ABOUT KESTREL VERIFIERS



For over 20 years Kestrel has been a trusted consultant in sustainable finance. Kestrel Verifiers, a division of Kestrel 360, Inc. is a Climate Bonds Initiative Approved Verifier qualified to verify transactions in all asset classes worldwide. Kestrel is a US-based certified Women’s Business Enterprise. For more information, visit kestrelverifiers.com.

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DISCLAIMER

This Opinion aims to explain how and why the discussed financing meets the ICMA Social Bond Principles based on the information which was available to us during the time of this engagement (May – June 2022) only. By providing this Opinion, Kestrel Verifiers is not certifying the materiality of the projects financed by the Social Bonds. It was beyond Kestrel Verifiers' scope of work to review for regulatory compliance and no surveys or site visits were conducted. Furthermore, we are not responsible for surveillance on the project or use of proceeds. Kestrel Verifiers relied on information provided by the Commonwealth and publicly available information. The Opinion delivered by Kestrel Verifiers does not address financial performance of the Social Bonds or the effectiveness of allocation of its proceeds. This Opinion does not make any assessment of the creditworthiness of the Commonwealth, or its ability to pay principal and interest when due. This is not a recommendation to buy, sell or hold the Bonds. Kestrel Verifiers is not liable for consequences when third parties use this Opinion either to make investment decisions or to undertake any other business transactions. This Opinion may not be altered without the written consent of Kestrel Verifiers. Kestrel Verifiers reserves the right to revoke or withdraw this Opinion at any time. Kestrel Verifiers certifies that there is no affiliation, involvement, financial or non-financial interest in the Commonwealth or the projects discussed. We are 100% independent. Language in the offering disclosure supersedes any language included in this Second Party Opinion.

Use of the United Nations Sustainable Development Goal (SDG) logo and icons does not imply United Nations endorsement of the products, services or bond-financed activities. The logo and icons are not being used for promotion or financial gain. Rather, use of the logo and icons is primarily illustrative, to communicate SDG-related activities.

Appendix A.

UN SDG TARGET DEFINITIONS

Target 1.2

By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions

Target 1.3

Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable

Target 1.5

By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters

Target 8.8

Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment

Target 10.3

Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

Target 10.4

Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality

Target 17.13

Enhance global macroeconomic stability, including through policy coordination and policy coherence