

# RatingsDirect®

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**Summary:**

**Massachusetts Bay Transportation  
Authority  
Metropolitan Boston Transit Parking  
Corp.; Parking**

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## Summary:

# Massachusetts Bay Transportation Authority Metropolitan Boston Transit Parking Corp.; Parking

### Credit Profile

#### **Metro Boston Transit Pkg Corp, Massachusetts**

Massachusetts Bay Transp Auth, Massachusetts

Metro Boston Transit Pkg Corp (Massachusetts Bay Transp Auth) PARKING

*Long Term Rating*

A-/Negative

Downgraded

## Rating Action

S&P Global Ratings lowered its long-term rating on the Metropolitan Boston Transit Parking Corp.'s (MBTPC) series 2011A senior-lien parking system revenue bonds, issued for the Massachusetts Bay Transportation Authority (MBTA), to 'A-' from 'A+'. The outlook is negative.

The bonds are secured by a senior-lien pledge of gross parking revenue derived from a system of over 95 parking lots and structures totaling approximately 44,000 spaces that serve MBTA stations. A debt service reserve fund equal to 50% maximum annual debt service (MADS) provides additional liquidity to bondholders. MBTPC is the issuer as well as a private nonprofit corporation and agency of MBTA, which is the corporation's sole member. Approximately \$304.6 million remains outstanding on the bonds, with only interest payments due each July 1 and Jan. 1 until principal payments begin in fiscal 2022.

### Credit overview

The rating action is based on a precipitous decline in parking revenues and, in our view, a high likelihood of continued very weak parking trends attributable to the ongoing COVID-19 pandemic, which triggered the March 24 statewide shelter-in-place order by the Massachusetts governor. This executive order, which directed all non-essential businesses in Boston to cease in-person operations, along with stay-at-home and social distancing protocols put in place for health and safety reasons, resulted in a collapse in MBTA passenger ridership beginning in mid-March and an 86% reduction in MBTA parking system revenues in one month. Under the transaction structure for the series 2011A bonds, all excess parking revenues typically flow monthly from MBTPC to MBTA after payment of debt service, which effectively left only revenues of \$490,000 in April to meet a \$1.27 million required debt service deposit. This shortfall prompted MBTA to transfer \$786,000 back to MBTPC from an MBTA discretionary fund in April in lieu of accessing the debt service reserve account, currently funded at \$13.2 million. MBTA management has disclosed that it intends to transfer future deficiency amounts to the trustee on a monthly basis to satisfy debt service deposits until parking revenues improve or the bonds can be refunded in 2021. The liquidity injection provided to MBTPC by MBTA to meet required debt service payments is permitted under the parking credit bond indenture, and is a positive, in our view. The receipt of \$159 million in CARES Act money to date has improved MBTA's overall cash position. However, while

still strong, under a downside scenario, we believe the decline in parking revenues for the remainder of 2020 will result in lower fiscal 2021 debt service coverage (DSC) and that recessionary impacts could limit parking rate-raising flexibility should ridership levels and parking revenues stagnate in the coming months.

Nevertheless, despite the current interruption in service, we view the parking system's key strengths to be its:

- Historically very strong market position due to the size and geographic diversity of MBTA's parking system, with often limited parking alternatives, particularly in urban areas, with no single facility accounting for more than 12% of total parking spaces;
- Extremely strong service area economic fundamentals, supported by the strength and breadth of the Boston-Cambridge-Newton metropolitan statistical area;
- Very strong management and governance supported by management's track record of managing the large parking system and, more recently, provision of liquidity support in the absence of adequate parking revenues to meet debt service obligations.

We view key weakness of the parking system's:

- Collapse of MBTA passenger ridership levels, parking demand, and parking revenues, attributable to the COVID-19 pandemic and shelter-in-place order, with an expected decline in fiscal 2021 DSC that limits parking rate-raising flexibility;
- Weakened debt capacity, reflective of higher debt-to-net revenue levels due to the significant drop in parking revenues, tempered by no additional new-money debt needs and sustainable revenue levels to support the current debt; and
- Vulnerable liquidity and financial flexibility because of the open flow of funds structure, which results in the parking fund maintaining a zero balance of unrestricted cash and equivalents because transfers to MBTA occur monthly.

S&P Global Economics forecasts that the U.S. economy will contract 5.2% this year—including a historic (annualized) decline of almost 35% in the second quarter, and has pushed the global economy into recession. At the start of May, we estimated that over 90% of the U.S. population was under stay-at-home guidelines, up from three-fifths in late March, and U.S. economic activity has effectively stopped. We acknowledge a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak, which will be a major headwind to U.S. growth in the near term.

The negative outlook reflects the ongoing shelter-in-place order and likely very slow recovery in parking revenue performance over the next 12 months once mobility restrictions are lifted, necessitating additional transfers from MBTA in support of debt service payments.

### **Environmental, social, and governance factors**

Our rating action incorporates our opinion regarding the health and safety risks posed by the COVID-19 pandemic, which we view as a social factor that is causing significant operating and financial pressures for the parking system. We analyzed MBTPC's risks related to environmental and governance factors, and consider them to be in line with our view of the standard for the parking sector. We will continue to evaluate these risks as the situation evolves.

## Negative Outlook

We could revise the outlook to stable if MBTA passenger ridership and parking revenues rebound such that DSC, without discretionary transfers from MBTA, of monthly deposits is adequate and we believe is sustainable.

### Downside scenario

We could lower the rating if continued depressed ridership and parking revenues further weaken DSC and debt-to-net revenue levels, requiring continued discretionary transfers from MBTA.

## Credit Opinion

Like other transit providers, MBTA is facing historic declines in almost every operating metric and associated revenue source. The authority has revised its 2020 operating budget in light of the passenger declines, infusions of federal money, and operating expense increases resulting from the COVID-19 pandemic. Since March, passenger fare revenue has decreased by 95% to \$3 million per month from approximately \$58 million per month, with \$25.5 million in COVID-19-related costs thus far. Under the federal CARES Act, MBTA is eligible to receive reimbursement funding totaling \$827 million, with \$159 million received to date. For perspective, in fiscal 2019, MBTA generated \$672 million in fare revenue; however, this is projected to decline by 20% to \$540 million by the close of the fiscal 2020 in June, with projections for another 65% decline to \$188 million by the close of fiscal 2021. While federal statutes allows CARES Act money to cover loss of revenue and operating expenses, MBTA is also working to secure additional access to liquidity to accommodate both working capital and other short-term funding if needed.

Critical to MBTA parking system revenue is the return of system passenger ridership who park at MBTA facilities. Ridership declines have been precipitous, dropping from an average of 483,000 daily validations at gated stations in February to 36,000 in mid-April. In preparation for fiscal 2021, management evaluated several alternative monthly ridership and fare revenue models and will be budgeting around continued depressed passenger levels through December 2020 before experiencing steadily improving passenger trends beginning in January 2021 through the rest of the year. Under that scenario, MBTA management estimates parking revenue will improve from an estimated \$400,000 per month in May 2020 to an average of \$2.2 million in fiscal 2021, and projected 1.75x DSC compared to historical DSC levels will be approximately 2.8x. However, we believe there are risks to the downside to the ridership forecast and parking revenues derived from passengers given the uncertain customer response to relaxation in social distancing and unknown employer return-to-work guidance, as well as the broader health and safety concerns associated with using public transportation. As a result, we view overall pro forma parking financial performance (including MBTA transfers) as adequate going forward, a revision from strong in our last review. Similarly, our view of the debt-to-net revenue ratio has increased due to the decline in parking revenues and could rise from 6.8x or very strong in our last review to levels we consider adequate under our criteria. MBTA management's disclosure that it intends to use the existing balance of the discretionary fund, currently at approximately \$21 million, to satisfy any monthly deficiencies from parking revenue collections to meet the \$1.2 million required debt service deposits is, in our opinion, a credit positive and improves our liquidity assessment.

We believe the bond provisions are credit neutral. The indenture's open flow of funds does not include operating

expenses from the corporation's funds because MBTA is responsible for operations, pursuant to a system-wide parking and revenue disposition agreement between the corporation and the authority. The effect of a 1.25x rate covenant is limited given that an event of default related to the rate covenant does not occur until coverage is below 1.1x. The additional bonds test requires 1.5x MADS coverage from historical revenue.

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