S&P Global
Ratings

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Summary:
Massachusetts Bay Transportation Authority; CP; Sales Tax

Primary Credit Analyst:
David G Hitchcock, New York + 1 (212) 438 2022; david.hitchcock@spglobal.com

Secondary Contact:
Jillian Legnos, Hartford + 1 (617) 530 8243; jillian.legnos@spglobal.com

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*(**Editor's Note:** Since publication of this article on July 26, 2021, the maturity date and par amount for the series 2021 bond anticipation notes has changed. As a result, we have also recalculated the maximum annual debt service coverage on the notes. An updated version is below.)*

Credit Profile		
US$328.mil subord sales tax BANs (Sustainability Bnds) ser 2021 due 05/01/2025		
Long Term Rating	AA/Stable	New
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth subordinated sales tax bnds (sustainability bnds)		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings has assigned its 'AA' rating to the Massachusetts Bay Transportation Authority's (MBTA) $328 million subordinated sales tax bond anticipation notes (BANs), series 2021 (sustainability bonds) maturing on May 1, 2025.

At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on MBTA's $121.1 million closed prior-lien debt (of which $120.3 million is variable rate); its 'AA' rating on MBTA's $2.7 billion prior-lien senior sales tax debt outstanding; its 'AA' rating on the MBTA's $1.3 billion of parity subordinated sales tax bonds outstanding, including its 'AA/A-1+' dual rating on the MBTA's variable-rate demand purchase debt and its 'A-1+' short-term rating on the authority's commercial paper (CP); and its 'AA' rating on a U.S. Department of Transportation third-lien Railroad Rehabilitation & Improvement Financing (RRIF) loan agreement for up to $852 million for the authority's commuter rail safety and resiliency program. The outlook on all long-term bonds and loans outstanding is stable.

The senior sales tax bonds are secured by a pledge of the greater amount of either a 1% statewide sales tax, plus a gross pledge of $160 million of additional state sales tax per year that MBTA receives for operational funding; or an inflation-adjusted sales tax revenue base amount distributed and guaranteed by the Commonwealth of Massachusetts. The senior sales tax pledge is subordinate to prior closed-lien general transportation bond obligations outstanding issued before 2000, to the extent that the MBTA does not certify that its general revenues can cover these prior-lien obligations in its annual budget from general revenues. In addition, pledged to the senior sales tax bonds are surplus assessments on 176 cities and towns, after payment of debt service on separate MBTA assessment bonds that have a first lien on those revenues.

The subordinate sales tax pledge securing the subordinated (second-lien) sales tax bonds consists of the same revenue pledged to the senior sales tax bonds, after payment of senior-lien sales tax bond debt service and senior-lien debt service reserve replenishments, if any.

Interest on the series 2021 subordinated sales tax BANs will be paid on a parity with outstanding subordinated sales tax bonds. However, principal of the BANs on the Dec. 1, 2024, maturity date is secured by MBTA's issuance of subordinated sales tax bonds, the proceeds of which will be used to pay the principal of the maturing BANs to the extent other money has not been made available. The note trust agreement has authorized an issuance of refunding subordinate sales tax bonds to take out the BANs, but in practice MBTA anticipates retiring the BANs from a draw on its federal RRIF loan agreement, which is secured by a third lien. BAN proceeds will be used for capital projects.

The RRIF loan, which has not yet been drawn on, will be secured by third-lien sales tax revenue after payment of the subordinated sales tax bonds. The RRIF loan agreement also specifies that the loan's junior lien changes to parity with senior-lien bondholders in the event MBTA files for bankruptcy or commences bankruptcy-like actions; however, we believe that as a state agency MBTA is not permitted to file for bankruptcy under the federal bankruptcy code. MBTA currently expects to repay the series 2021 subordinated BANs with a draw on the RRIF loan.

The long-term component of the dual rating on the variable-rate demand bonds reflects MBTA's credit characteristics. The short-term component of the rating reflects our assessment of the standby bond purchase agreements associated with the variable-rate debt.

Whether the MBTA will ultimately draw on the RRIF loan, or instead issue its own bonds secured by either a subordinated or senior sales tax lien will depend on future market conditions at the time of the maturity of the BANs funding that project. In the meantime, the Automatic Train Control project is being funded by second-lien sales tax BANs and CP.

Credit overview

Our MBTA sales tax bond ratings are based on what we perceive to be the stronger pledge of either the state-guaranteed base revenue amount or pledged MBTA sales tax revenue. Currently, we view the pledge of state-guaranteed base revenue as of stronger credit quality for all three liens because it cannot decrease in amount; is currently only slightly lower than the pledged sales taxes, whose excess debt service coverage (DSC) can be diluted by future debt issuance; and is backed by the commonwealth's guarantee of all sales tax Massachusetts collects, not just the 1% MBTA dedicated sales tax. We do not make a rating distinction among the senior, subordinate, and Transportation Infrastructure Finance and Innovation Act /RRIF liens because we currently view all liens as linked to the credit quality of the commonwealth, which provides MBTA with the state-guaranteed base revenue securing the bonds, and which is sufficient to cover debt service for all three liens.

Both senior and subordinated sales tax bonds outstanding will continue to have an open lien permitting additional debt issuance using the same additional bonds test (ABT) coverage multiple. We expect debt service DSC based on pledged state revenue to remain high and of similar magnitude in the near term for all liens. We believe the lack of a debt service reserve on the subordinate bonds and the RRIF loans is mitigated by strong DSC levels and the stability of the state-guaranteed base revenues. We view the rating as linked to the pledged state revenues, which pay debt service before MBTA operational costs. The rating is not dependent on the operations of MBTA, which have been adversely affected by the COVID-19 pandemic.

Although Massachusetts had a temporary monthly decline in statewide sales tax due to pandemic restrictions on economic activity, debt service nevertheless remained well covered by the commonwealth's guarantee to pay a base amount of monthly payments from all state sales tax collections, regardless of the 1% state sales tax collections allocated to MBTA and pledged to bondholders. This base amount of state revenue can rise with inflation but cannot decrease under the state's revenue formula. We view the commonwealth as an independent provider of pledged revenues, independent of MBTA, whose operations have been adversely affected by pandemic restrictions.

Recently, state sales taxes have been increasing faster than the base revenue amount, and fiscal 2020 pledged 1% sales taxes of $1.077 billion were slightly higher than the fiscal 2020 base revenue amount of $1.06 billion, although not as high as the certified state-guaranteed base amount of $1.095 billion for fiscal 2022. However, we believe that the sales tax is subject to potentially greater variability and continue to view the base revenue amount as the key determinant in our rating. Growth in sales tax is aided by the fact that the pledged 1% sales tax excludes meals tax, which has been the portion of sales tax most affected by pandemic restrictions on economic activity. Dedicated sales tax rose 2.3% in 2020, the most recent full fiscal year available, despite the pandemic. However, the base revenue amount is determined on a forward budget basis, and has already been fixed for fiscal 2022.

The 'AA' ratings reflect the strength of Massachusetts (general obligation [GO] rating: AA/Stable) to provide pledged sales tax revenue, in that the state base revenue amount, which is currently higher than the pledged sales tax revenue, is payable from total state sales taxes, and is not subject to state appropriation. In our view, the potential dependence on state-guaranteed base revenue creates an indirect link to state credit quality. For more information on the commonwealth, see our most recent analysis on Massachusetts, published April 27, 2021, on RatingsDirect.

The stable outlook reflects that of our outlook on the commonwealth, which guarantees pledged monthly state base revenue as a guarantee of Massachusetts. The outlook also reflects our view of MBTA's ability to issue future additional parity bonds under the authority's senior and subordinate lien ABTs based on the size of state base revenue, which is larger than directly pledged sales taxes. Should we lower our GO rating or revise our outlook on the commonwealth, we could potentially lower our ratings on the MBTA sales tax bonds and the RRIF loans. Our outlook also assumes consistently strong DSC over our two-year outlook horizon, despite capital pressures.

Other rating factors include:

- A large and diverse statewide economy of 6.9 million generating the pledged sales tax;
- Strong 2.23x coverage of maximum annual debt service (MADS) on combined prior closed, senior, subordinated, and RRIF sales tax liens by fiscal 2022 pledged state base revenue, assuming unhedged variable-rate debt carries a 2.4% interest rate and outstanding and proposed BANs are refunded by proposed future take-out subordinated sales tax bonds;
- MADS coverage of all three liens is also strong by pledged MBTA sales tax revenue at 2.20x, using the most recent fiscal 2020 pledged MBTA sales tax revenue alone;
- Coverage of senior-lien MADS alone is higher at 2.87x by the fiscal 2022 base revenue amount, while second-lien MADS coverage of combined senior-lien and subordinate-lien sales tax debt is 2.24x;
- Nondiversion and nonimpairment covenants that prevent reduction of the pledged sales tax rate or diversion of pledged revenues, while pledged sales tax and state base sales tax revenue is not subject to annual appropriation;

and

- Pledged revenues that pay debt service on a gross basis before payment of MBTA operations, so that collection of pledged revenues is not dependent on the MBTA providing transportation services.

Offsetting factors include:

- Significant capital needs; and
- A modest exposure to unhedged variable-rate debt.

Environmental, social, and governance (ESG) factors

We view MBTA's environmental risks as in line with our view of the standard for mass transit. However, the authority is exposed to potential social risks should pandemic-related social distancing requirements to promote health and safety be reimposed, and in view of past operational issues that have led to a state control board, and to potential governance risks. Our ESG evaluation of our sales tax bonds rating on MBTA mirrors that of the commonwealth, which supplies the pledged guarantee-based revenue, and whose ESG factors we view as generally in line with that of other states.

Stable Outlook

Downside scenario

Significant additional debt leverage that lowered DSC below what could be covered under the base revenue amount under the 1.5x sales tax coverage test portion of the ABT, or a debt structure that included a significant amount of variable-rate or short-term debt in a rising interest-rate environment, could result in a downgrade or a an outlook revision to negative.

Upside scenario

Should we revise our outlook on Massachusetts to positive, or if we believe the creditworthiness of MBTA's direct sales tax pledge strengthens enough so that it is higher than the pledge of the state base amount, we could potentially revise our outlook to positive on the senior and subordinate sales tax bonds. Although future refundings on senior sales tax bonds into subordinate-lien debt could raise the DSC differential between senior and subordinate debt, it is unlikely we would raise the senior-lien bond rating or revise the outlook alone because the senior bonds will have the same ABT as the subordinate-lien bonds and the credit quality of the pledged base revenue amount is linked to the state GO rating.

Credit Opinion

Capital program

Historically, MBTA has used a rolling five-year capital improvement plan (CIP), which was $8.2 billion for 2020-2024. However, due to disruption caused by the pandemic, the MBTA operated under a one-year CIP in fiscal 2021 and plans to do so for fiscal 2022. The fiscal 2022 CIP equals approximately $2.0 billion (up from $1.75 billion the year before), of which approximately $620 million was financed from Commonwealth of Massachusetts bonds, $761 million from MBTA bonds, $585 million from federal assistance, and the remainder from pay as-you-go and other funds. For planning purposes, MBTA assumes issuance of $590 million per year of additional MBTA bonds on average during fiscal years 2022-2026. Ongoing expansions in fiscal 2021 included an extension of a commuter rail line to the south, a green line extension, and improvements at Boston South Station, which was being funded by commonwealth bonds.

Debt service coverage

Although current DSC is strong by either the guaranteed base amount or sales tax pledge, we believe it could potentially drift downward again closer to the ABT limit, as occurred before the 2015 addition of the $160 million pledge to the bonds of state sales tax on a gross basis that is used for MBTA operations, in light of the large capital plan, and the potential for cost overruns or expanded borrowing. The additional sales tax debt MBTA plans to issue over the next five years is up significantly from before operational issues became evident in 2015. We believe the potential exists for additional capital needs to bring the system up to a state of good repair and for cost escalations on rail line extensions that could raise future bonding needs.

Before a commonwealth enabling act in 2000, MBTA issued general revenue bonds backed by the commonwealth, and Massachusetts backfilled MBTA operating deficits after a time lag. Parity sales tax bonds issued since July 1, 2000, have been backed by a lien on the 1% statewide sales tax (which excludes sales tax on meals) plus the recent addition of $160 million per year of state sales tax, subordinate to the prior-lien bonds issued before 2000, with excess sales tax revenues funding subordinate debt service and MBTA general operations.

In addition, the commonwealth created a formula for a guaranteed base amount of pledged sales tax revenue, should pledged sales tax revenue decline, or not increase as fast as inflation. This base amount was raised by an extra $160.0 million in fiscal 2015, and subsequently increases annually by the rate of the Boston Consumer Price Index (CPI) up to 3% per year, or lower to the extent that the rate the CPI increases is less than 3% but more than the sales tax rate increase (in which case the base amount increase is the rate of increase in sales tax). If neither the CPI nor the sales tax increase in a given year, the base amount is held flat for that year. The base amount has increased to $1.096 billion, due in fiscal 2022, compared with $767 million in 2009. The commonwealth collected $1.077 billion of pledged sales tax fiscal 2020, compared with $1.063 billion under the 2020 base amount, which has been set at $1.096 billion for fiscal 2022. MBTA also receives other commonwealth money and federal revenues that are not pledged to the sales tax bonds. We understand that both the pledged dedicated sales tax amount and the base amount do not need a legislative appropriation to be used to pay debt service.

The senior-lien bonds have a debt service reserve funded at one-half the lesser of sales tax bond MADS, 125% of average annual debt service, or 10% of the original par amount of the bonds, while the subordinate bonds and the RRIF loans do not have debt service reserves. In view of prospects that coverage by state-guaranteed revenues will remain high for both liens, we do not believe lack of a debt service reserve is a significant credit differentiator between the senior and subordinate bonds. MBTA is in the process of gathering bondholder consent to convert the senior bond debt service requirement into an aggregate amount, instead of a per series requirement, by voting new bond issues in favor of the amendment.

The 1.00% pledged sales tax, plus $160 million per year, is part of Massachusetts' overall 6.25% sales tax rate. State sales tax revenue declined in the previous recession, with a cumulative decline of 7.9% in fiscal years 2008-2010. Sales tax revenues have generally shown good growth in recent years, until a 17.7% decline in one-month April 2020 sales tax compared with the same April period the year before. Since pandemic restrictions have been partially lifted, sales taxes have recovered strongly, and fiscal 2020 dedicated sales taxes actually increased 2.3%, after 4.5% growth in 2019. It has helped that the 1% dedicated sales tax pledge excludes sales taxes on meals, which has been the portion of sales taxes most affected by the pandemic.

Combined MADS coverage from all liens on prior closed-lien general transportation revenue bonds, senior and subordinate sales tax bonds, expected BAN take-out subordinate bonds, and RRIF loan debt service is strong, in our opinion, at what we calculate as 2.20x by historical fiscal 2020 pledged actual sales tax revenues, and 2.23x by the 2022 certified state-guaranteed base revenue amount, assuming an interest rate of 2.4% on unhedged variable-rate debt, and that debt service reserve releases as bonds mature or are defeased are dedicated to debt service. Coverage on senior sales tax revenue bond MADS and closed prior-lien debt service of $381.1 million in 2022 was 2.87x by the 2022 guaranteed base amount.

Additional bonds test

The ABT is the same for both senior sales tax bonds and subordinate sales tax bonds, the only difference being that the definition of debt service for the subordinate sales tax bond ABT includes combined annual debt service of both senior and subordinated debt. This, in essence, requires all bonds to meet the subordinate ABT. The ABT requires either 1.0x coverage of combined prior general transportation bonds and combined senior and subordinate sales tax bond MADS by the state-guaranteed base revenue amount, or 2.0x coverage by historical sales tax revenues, net of prior general transportation bond debt service; and 1.5x coverage of sales tax revenue bond debt service and all prior general transportation debt obligations on a combined basis by historical sales tax revenue.

Variable-rate debt and swaps

MBTA has $47.5 million of unhedged variable-rate debt and authorization for up to $400 million of CP BANs, all secured by sales tax revenue, which comprises about 6% of total sales tax-secured debt.

The authority has two interest-rate swap agreements associated with a $99.4 million notional amount of variable-rate sales tax-secured bonds. It is not required to begin posting collateral for any of its swap agreements in the event of negative swap valuations until the sales tax rating on the MBTA falls below 'A'. Immediate swap termination events with notice do not go into effect unless the rating on the MBTA or Massachusetts falls below 'BBB-', although certain swap termination events with notice can occur if the sales tax rating falls below 'A-'. Any swap termination payments would be subordinate to payment of sales tax bond debt service. We believe that termination events are unlikely at current rating levels.

We have previously evaluated MBTA's $50 million direct placement loan agreement with UBS Group AG for potential liquidity, which was entered into before the authority received approximately $827 million of federal CARES Act reimbursement money, and do not believe it to have terms that pose an inordinate risk to the sales tax ratings. MBTA does not believe it will ultimately draw on this credit line, secured on a parity basis by subordinate sales tax revenue, and does not believe it will need to bond long term for increased operational costs brought about because of the COVID-19 pandemic. The credit line expires May 5, 2022.

Operations

MBTA was created in 1964, and was put under the control of a state oversight board following various operational issues in the winter of 2015. The oversight board expired June 30, 2021. Following dissolution of the control board, MBTA governance devolved onto the Massachusetts Department of Transportation (MassDOT). MBTA has an 11-member governing board, appointed by the governor, which is the same board as for the MassDOT, although MBTA exists as a separate legal entity within the department. Members serve four-year terms. The enabling act does not provide for MBTA to be a debtor under the federal bankruptcy code.

The governor has included a proposal in his fiscal 2021 executive budget proposal to reconstitute an independent MBTA board, separate from the MassDOT board, consisting of six members appointed by the governor and one member appointed by the MBTA advisory board. Ultimate resolution of the governing structure after June 30, 2021, will depend on legislative outcome.

MBTA runs the oldest and fifth-largest transit system in the country, operating subway, bus, and commuter rail service throughout eastern Massachusetts. Before the pandemic, the authority was responsible for an estimated 1.3 million passenger trips each business day, providing approximately 55% of all work trips to Boston. MBTA operates more than 38 miles of rapid transit rail routes and 26 miles of additional light rail. It owns more than 1,000 buses, which cover 1,127 miles of routes. The authority's commuter rail service operates 420 coaches and 90 locomotives, providing service between Boston and 141 outlying rail stations. In addition, MBTA provides a broad range of other passenger services including commuter boats. Its territorial area has increased to 176 cities primarily in the greater Boston area, extending north to the New Hampshire border, west to the city of Worcester, and south into Providence, R.I., with a total service area population of about 4.8 million.

The authority employs approximately 5,880 full-time and 480 part-time employees, most of which are represented by 29 labor unions, and is currently operating under a labor contract expiring June 30, 2021. In fiscal 2019, the last audited year, MBTA operating expenses less depreciation were $1.9 billion; this does not include debt service, which is deducted from sales tax before being credited to operating funds. Its unrestricted cash and temporary cash investment position was $296.9 million at fiscal year-end June 30, 2019, and MBTA reports. As for most transit systems, MBTA relies heavily on intergovernmental operating subsidies to pay for operations. In 2019, it received $1.4 billion from state sales taxes, state contract assistance, and local assessments.

The pandemic has severely affected ridership: The MBTA experienced 87%, 78%, and 59% declines in ridership levels in commuter rail, rapid transit, and bus service, respectively, from pre-pandemic levels. As a result, the MBTA responded with expenditure cuts, reprogramming of capital spending, and reduced service in non-essential areas. MBTA reports that in the summer and fall of 2020 it received $827.7 million of federal CARES Act funds, sufficient to cover operating gaps through fiscal 2021. As of March 1, 2021, the authority reported that it had 97 days' cash on hand, $608.1 million, assuming no incremental new revenue.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of July 26, 2021)		
Massachusetts Bay Transp Auth subord sales tax		
Long Term Rating	AA/Stable	Affirmed
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transp Auth CP		
Short Term Rating	A-1+	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax		
Long Term Rating	AA/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax		
Long Term Rating	AA/A-1+/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax		
Long Term Rating	AA/A-1+/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax (AGM) (MBIA)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth sr sales tax (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		

Ratings Detail (As Of July 26, 2021) (cont.)		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth subord sales tax		
Long Term Rating	AA/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth subord sales tax		
Long Term Rating	AA/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
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Massachusetts Bay Transp Auth, Massachusetts		
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Long Term Rating	AA/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
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Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth subord sales tax		
Long Term Rating	AA/Stable	Affirmed
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts		
Massachusetts Bay Transp Auth, Massachusetts		
Massachusetts Bay Transp Auth subord sales tax		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.