

RatingsDirect®

Summary:

Massachusetts Bay Transportation Authority; State Revolving Funds/Pools

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Summary:

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Credit Profile

| | | |
|---|------------|----------|
| US\$185.905 mil assessment bnds ser 2022A-1 dtd 04/13/2022 due 07/01/2041 | | |
| <i>Long Term Rating</i> | AAA/Stable | New |
| US\$104.915 mil assessment bnds (Sustainability Bnds) ser 2022A-2 dtd 04/13/2022 due 07/01/2052 | | |
| <i>Long Term Rating</i> | AAA/Stable | New |
| US\$1.91 mil assessment bnds (Federally Taxable) ser 2022B dtd 04/13/2022 due 07/01/2023 | | |
| <i>Long Term Rating</i> | AAA/Stable | New |
| Massachusetts Bay Transp Auth SRFPOOL | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the Massachusetts Bay Transportation Authority's (MBTA) \$293 million series 2022A and 2022B assessment bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on MBTA's assessment bonds outstanding. The outlook is stable.

Bond proceeds will provide financing for a portion of the authority's capital plan, and refund certain bonds outstanding. As a result of the transaction, series 2022 bondholders will constitute the majority, and MBTA is adopting an amended and restated master trust indenture that will govern this and future transactions.

Credit overview

The 'AAA' rating reflects our opinion of the following:

- A very strong enterprise risk profile, which includes the effects of a negative adjustment given for geographic concentration;
- An extremely strong financial risk profile, reflecting the loss coverage score (LCS) and operating performance;
- A one-notch positive adjustment due to both the ability of the cash flows to withstand a default rate much higher than required to support an extremely strong LCS; and
- A pledged assessment payment mechanism cross-collateralized with another key MBTA revenue stream (sales tax revenues), which provides excess coverage.

Because we view securitizations backed by pools of public sector assets as highly sensitive to country risk, the rating on the securitization is capped at two notches above the sovereign. However, no specific sovereign default stress is applied, given the U.S. sovereign rating is 'AA+'.

The assessment bonds are secured by assessments levied on 176 member communities, excess revenues released after

debt service is paid on MBTA's sales tax bonds, and pledged reserve funds. Under the enabling act, neither the assessment floor for MBTA nor sales tax revenue for MBTA can be reduced or diverted, and neither is subject to annual appropriation. Individual assessments for the 176 member communities are calculated based on a combination of community type (primarily distance from Boston, resulting in type of service offered) and weighted population.

Despite the new indenture, revised key legal provisions do not affect our overall evaluation of the transaction. Such provisions include an additional bonds test that requires assessment revenues to cover maximum annual debt service by 1.3x (up from 1.2x of the assessment floor), and the elimination of a debt service reserve account. In terms of the latter, we have analyzed cash flows through stressed default rates that assume no debt service reserve, highlighting the ability of available revenues to still adequately cover debt service.

The stable outlook reflects our expectation that assessment collections, excess sales tax collections, and reserve funds will continue to provide over-collateralization consistent with the rating level.

Stable Outlook

Downside scenario

Barring any significant deterioration in assessment collections or additional unforeseen and large debt plans secured by assessments, we do not foresee lowering the rating or revising the outlook within the two-year outlook horizon, especially given the importance of the MBTA's functions and the large equity positions created from excess revenues that are pledged to bondholders, namely assessments and excess sales tax revenues, after debt service is paid on the authority's sales tax bonds.

Credit Opinion

We view the enterprise risk profile of the program as very strong, based on the combination of the low industry risk profile for municipal pools and the program's market position, which we consider extremely strong. The MBTA was created in 1964 as a political subdivision of the commonwealth. It finances and operates mass transportation facilities within its territory and, to a limited extent, beyond. Debt service coverage generated each year effectively creates a large equity position, in our view, since each year the large amount of pledged revenues (assessments and excess sales tax revenues after payment of debt service on MBTA's sales tax bonds) that are collected far exceed annual debt service payments, and those excess payments remain with the authority to be used for operations or any other authority purpose. The very strong enterprise risk profile includes the effects of applying an adjustment for geographic concentration since the MBTA's service area serves one metropolitan area.

We view the financial risk profile of the program as extremely strong, based on the combination of the extremely strong LCS, extremely low default and delinquency rate, and adequate management policies.

Annual assessments are levied on municipalities in the MBTA service area. The assessment revenues available to MBTA have a guaranteed floor of approximately \$136 million and, as per the enabling act, escalate annually at the lesser of the previous year's inflation rate or 2.5%. For fiscal 2021, the MBTA collected \$177.9 million in assessments;

for fiscal 2022, it estimates the assessment to be about \$179.3 million.

Management has indicated that there have been no assessment defaults or delinquent payments in the program's history.

Program and assessment bond characteristics

MBTA is the oldest and fifth-largest transit system in the country, operating subway, bus, and commuter rail service throughout eastern Massachusetts. Created in 1964, it is a political subdivision of the commonwealth. Five of the seven board members are appointed by the governor; the secretary of transportation and another appointed by an advisory board complete the membership. The board appoints a general manager and other officers. The advisory board consists of a representative of each of the assessed communities.

The territorial area of the MBTA includes 176 cities and towns directly or indirectly receiving service. The service area is primarily the greater Boston metropolitan statistical area, extending north to the New Hampshire border, west to Worcester, and south into Providence, R.I.

Under both the assessment bond and sales tax bond trust agreements, surplus revenues released from either the assessment bond or sales tax bond flow of funds are available to fund shortfalls in either trust agreement prior to remittance to the MBTA. In addition, under the enabling act, neither revenue stream can be reduced or diverted and neither is subject to annual appropriation. As mentioned above, a local aid intercept is available in the event of nonpayment by a community, although competing programs also have the ability to intercept state aid (for example, Massachusetts Clean Water Trust and Massachusetts Water Resources Authority), and the priority of the intercept has never been legally determined.

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